

Message Text

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LIMDIS

FOLLOWING REPEAT KINSHASA 5675 SENT ACTION SECSTATE 02 JUN 78

QUOTE S E C R E T KINSHASA 5675

FOR IMMEDIATE DELIVERY TO AF DAS WALKER

LIMDIS

E.O. 11652: GDS
TAGS: ECON, EAID, CG, US
SUBJECT: ESSENTIAL ZAIRIAN ECONOMIC REFORMS

REF: A)77 KINSHASA 11236, B) KINSHASA 5655

1. SUMMARY: AS CONDITIONS PRECEDENT FOR INCREASED
ECONOMIC ASSISTANCE OTHER THAN FOR EMERGENCY FOOD OR REFUGEE
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PURPOSES, WE SHOULD INSIST UPON ECONOMIC REFORMS. THESE WOULD INCLUDE: A) INSTALLATION OF AN IMF TEAM TO CONTROL CENTRAL BANK FOREIGN EXCHANGE ALLOCATION; B) BELGIAN EXPERTS TO IMPROVE CUSTOMS COLLECTION; C) A NEW IMF STANDBY, AND WE SHOULD RELATE OUR CONTINUED ASSISTANCE TO COMPLIANCE WITH ITS TERMS; D) GREATER EFFORTS TO ENSURE FOREIGN EXCHANGE REPATRIATION; E) MORE RATIONAL ALLOCATION OF RESOURCES; F) BETTER COMPLIANCE WITH PREVIOUS OFFICIAL DEBT RESCHEDULING AGREEMENTS AND ANOTHER AGREEMENT WITH THE PRIVATE BANKS WHICH IS BETTER SUITED THAN THE LONDON ACCORD TO ZAIRE'S CHANGED CIRCUMSTANCES.

END SUMMARY

2. IN ADDITION TO THE POLITICAL REFORMS WHICH I HAVE RECOMMENDED (REF B), WE BELIEVE THAT WE SHOULD ALSO INSIST UPON KEY ECONOMIC REFORMS AS CONDITIONS PRECEDENT FOR ECONOMIC ASSISTANCE OTHER THAN EMERGENCY FOOD OR REFUGEE ASSISTANCE.

3. LAST NOVEMBER WHEN WE REPORTED AND COMMENTED (REF A) CONCERNING MOBUTU'S ANNOUNCEMENT OF THE MOBUTU PLAN, WE NOTED THAT HE ACCURATELY AND RATHER COURAGEOUSLY DESCRIBED SOME OF THE MAJOR ECONOMIC PROBLEMS OF THE COUNTRY, SUCH AS ILLEGAL IMPORTS AND EXPORTS, FAILURE TO PAY CUSTOMS TAXES AND EXCESSIVE PRICE MARK-UPS. WE COMMENTED THAT THE ZAIRIAN ELITE, INCLUDING MOBUTU'S CLOSE RELATIVES, ARE AMONG THE CHIEF PERPETRATORS OF THESE ACTIONS AND CONCLUDED BY STATING THAT IT REMAINED TO BE SEEN IF HE WOULD OR COULD CORRECT THESE ABUSES BY THE ELITE. DESPITE PLANS, AS OF NOW THERE HAS BEEN NO CORRECTION OF THE ABUSES THAT HE CITED, AND THE ONLY CHANGES SO FAR--SUCH AS THE ELIMINATION OF AUTHORIZATION TO IMPORT GOODS WITHOUT A FOREIGN EXCHANGE ALLOCATION (SAD)--HAVE BEEN COSMETIC RATHER THAN REAL. IN HIS SPEECH MOBUTU STATED THAT HE WOULD REQUEST IMF TECHNICAL ASSISTANCE IN RUNNING THE BANK OF ZAIRE AND THAT HE WOULD TAKE STEPS TO IMPROVE THE

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CUSTOMS SERVICE. DESPITE PLANS, NEITHER OF THESE ACTIONS HAVE YET OCCURRED. FOREIGN EXCHANGE ALLOCATION CONTINUES TO BE AS ERRATIC AS BEFORE AND CUSTOMS EVASION IS WIDESPREAD. FOR EXAMPLE, BASED UPON PROJECTION OF THE PRESENT TRENDS, OFFICIAL COFFEE EXPORTS THIS YEAR WILL BE NO MORE THAN 50,000 MT. ANOTHER 30,000 MT WILL BE OR HAVE BEEN EXPORTED ILLEGALLY THIS YEAR.

4. ONLY THIS WEEK CENTRAL BANK GOVERNOR BOFOSSA REITERATED TO US THAT THE GOZ HAS AGREED THAT AN IMF TEAM WILL HAVE AUTHORITY AS TO ALLOCATION OF THE CENTRAL BANK'S FOREIGN EXCHANGE AND THAT BELGIAN EXPERTS SHOULD BE PLACED IN THE CUSTOMS SERVICE. BOFOSSA CLAIMS THAT THEY ARE WAITING FOR THE IMF TO NAME THE TEAM CHIEF AND FOR THE BELGIANS TO SELECT THE EXPERTS FOR THE CUSTOMS SERVICE. REGARDLESS OF WHO IS RESPONSIBLE FOR THE DELAY, INSTALLATION OF THESE EXPERTS SHOULD BE A CONDITION PRECEDENT FOR NEW ECONOMIC ASSISTANCE TO ZAIRE, AND CONTINUED ECONOMIC ASSISTANCE SHOULD BE CONTINGENT UPON THESE INDIVIDUALS BEING ACCORDED REAL CONTROL OVER FOREIGN EXCHANGE ALLOCATION AND THE CUSTOMS SERVICE.

5. ADDITIONAL CONDITIONS PRECEDENT FOR ECONOMIC ASSISTANCE SHOULD BE:
A) A STANDBY AGREEMENT WITH THE IMF.
THIS IS THE MOST APPROPRIATE VEHICLE TO ENSURE CONTROL OVER PRESIDENTIAL SPENDING AND THE SIZE OF THE BUDGET DEFICIT.
THE IMF STANDBY SHOULD BE CLOSELY MONITORED AND CONTINUED ASSISTANCE RELATED TO COMPLIANCE WITH ITS TERMS.

B) GREATER EFFORTS TO ENSURE FOREIGN EXCHANGE REPATRIATION.
INSTALLATION OF BELGIAN EXPERTS IN THE CUSTOMS SERVICE WILL
HELP GREATLY. HOWEVER, THE PROBLEM IS SO PervasivE THAT
ADDITIONAL MEASURES ARE REQUIRED. COFFEE EXPORTERS WHO ARE
KNOWN SHOULD BE MADE TO ACCOUNT FOR THEIR EXPORT RECEIPTS AND
ATTEMPTS SHOULD BE MADE TO FORCE REPATRIATION OF FUNDS HELD
ABROAD, PARTICULARLY FROM COFFEE SALES. THIS WILL AFFECT KEY
MEMBERS OF THE GOZ ELITE, BUT IT IS FAIRLY EASY TO DOCUMENT

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AND COULD YIELD SUBSTANTIAL FOREIGN EXCHANGE. MOBUTU
HIMSELF SHOULD LEAD THE LIST AS HIS LATE WIFE WAS ONE OF
ZAIRE'S PRINCIPAL COFFEE EXPORTERS AND SUCH EXPORTS ARE
DOCUMENTED.

C) MORE RATIONAL ALLOCATION OF RESOURCES.

WE BELIEVE THAT A STRONG CENTRAL GOVERNMENT IS THE MOST EFFECTIVE
MEANS OF ADMINISTERING A COUNTRY AS LARGE AND AS UNDEVELOPED
AS ZAIRE. ECONOMIC DECENTRALIZATION COULD WELL CREATE MORE
PROBLEMS THAN IT WILL SOLVE. HOWEVER, THE CENTRAL AUTHORITIES
MUST MAKE COMMITMENTS TO EFFECT A MORE EQUITABLE DIVISION OF THE
"PIE". FOR EXAMPLE, THE DEMAND FOR PETROLEUM PRODUCTS IS APPROX-
IMATELY \$12-\$14 MILLION MONTHLY, WHILE FOREIGN EXCHANGE HAS BEEN
SUFFICIENT DURING THE PAST SEVERAL YEARS TO COVER IMPORTS OF
ONLY APPROXIMATELY \$9 MILLION MONTHLY. HOWEVER, THERE HAS BEEN
NO ATTEMPT TO RATION THE AMOUNT OF PETROLEUM PRODUCTS AVAIL-
AABLE OR TO EVEN MAKE AN ECONOMIC JUSTIFICATION FOR AN ALLOCATION
WHICH MIGHT FAVOR CERTAIN REGIONS. MOBUTU SIMPLY INSTRUCTED
PETRO ZAIRE TO MAKE AVAILABLE ALL SUPPLIES THAT KINSHASA WANTED,
WITH ANYTHING LEFT OVER TO BE MADE AVAILABLE TO THE INTERIOR OF
THE COUNTRY. AS A RESULT, AGRICULTURAL PRODUCTION
IN THE INTERIOR HAS FALLEN BECAUSE OF A LACK OF
PETROLEUM PRODUCTS. SIMILARLY WHEN WHEAT SHIPMENTS HAVE BEEN
REDUCED, THE FLOUR COMPANY HAS BEEN ORDERED TO SUPPLY KINSHASA
FIRST AND THEN GIVE ANYTHING LEFT OVER TO THE INTERIOR. A FAIRER
ALLOCATION OF RESOURCES IS JUSTIFIED, NOT ONLY ON PRINCIPLES OF
EQUITY BUT SO AS TO MAXIMIZE PRODUCTION AND TO HALT URBAN
MIGRATION. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE
LEGITIMATE REQUIREMENTS OF THE SHABA WHICH HAS BEEN THE SOURCE
OF MOST OF ZAIRE'S WEALTH.

D. OFFICIAL DEBT RESCHEDULING.

GENEROUS DEBT RESCHEDLING IS GOING TO BE REQUIRED FOR ZAIRE

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AS THE RESOURCES ARE SIMPLY NOT AVAILABLE TO SERVICE THE DEBT.
THE ALTERNATIVE WILL BE A FORMAL OR A DE FACTO MORATORIUM. WE
SHOULD PROCEED SOONEST WITH GENEROUS RESCHEDULING FOR 1978 AND
POSSIBLY 1979, BUT PUT PRESSURE UPON THE GOZ TO COMPLY WITH THE

TERMS OF THE PREVIOUS RESCHEDULING AGREEMENTS. SUCH PAYMENTS ARE RELATIVELY SMALL AND SHOULD BE MADE IN ORDER TO RESTORE ZAIRE'S CREDIBILITY AND ALSO BECAUSE OF LEGAL RESTRICTIONS UPON OURSELVES AND OTHERS RESTRICTING ASSISTANCE WHEN DEBT PAYMENTS ARE DELINQUENT.

E. PUBLIC DEBT RESCHEDULING.

WE DO NOT RECOMMEND THAT WE PRESS THE GOZ TO PROCEED WITH THE LONDON BANK AGREEMENT AS, UNDER PRESENT CIRCUMSTANCES, IT DOES NOT APPEAR TO BE REALISTIC. GOVERNOR BOFOSSA TOLD US THAT PAYMENTS DUE PRIVATE BANKS NOW TOTAL \$196 MILLION, WHEREAS THE GOZ HAS ONLY \$85 MILLION IN THE BIS ACCOUNT SET ASIDE FOR THESE PAYMENTS. BOFOSSA HAD NO IDEA WHERE HE COULD RAISE THE ADDITIONAL \$111 MILLION DUE THE PRIVATE BANKS, AND NEITHER DO WE. WE SHOULD ENCOURAGE THE GOZ AND THE PRIVATE BANKS TO NEGOTIATE A RESCHEDULING OR ANOTHER AGREEMENT MORE APPROPRIATE TO ZAIRE'S CHANGED CIRCUMSTANCES.

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